

Czech Republic: Inflation slows down further

As expected, inflation slowed down slightly to 1.7% mainly on the back of lower food prices. And the central bank might even appreciate this now as the market will stop betting on further rate hikes



1.7% YoY

 March inflation

As expected

Inflation slowdown driven by food

March inflation remained below the Czech National Bank's target of 2% and slowed to 1.7% compared to 1.8% in February.

In month-on-month terms, prices fell slightly (-0.1%). The year-on-year slowdown in inflation compared to February was driven mainly by lower food prices, which declined in MoM terms (-0.6 MoM) and its YoY dynamics slowed down from 2.3% to 1.9% YoY. Fuel prices also declined slightly

(-0.8% in MoM terms and -2.0 %YoY).

The structure of inflation

	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont (ppt)
Total	1.7	1.7	-0.1	-0.1	1.8	1.8
Food and non-alcoholic beverages	1.9	0.3	-0.6	-0.1	2.3	0.4
Alcoholic beverages, tobacco	2	0.2	0.4	0.0	2.3	0.2
Clothing and footwear	-0.2	0.0	0.9	0.0	-0.1	0.0
Housing, water, energy, fuel	2.3	0.6	0.1	0.0	2.3	0.6
Furnishings, households equip.	1	0.1	0.4	0.0	1.3	0.1
Health	3.8	0.1	0.6	0.0	3.8	0.1
Transport	1.1	0.1	-0.2	0.0	1.1	0.1
Post and telecommunication	-2.4	-0.1	-0.1	0.0	-2.3	-0.1
Recreation and culture	0.7	0.1	-1.2	-0.1	0.4	0.0
Education	1.5	0.0	0	0.0	1.5	0.0
Restaurants and hotels	3.4	0.2	0.4	0.0	3.4	0.2
Miscellaneous goods and services	2.1	0.1	0.4	0.0	1.4	0.1

Source: CZSO, ING Bank

Prices of services accelerated in March

Inflation reached its peak in October last year at 2.9% YoY but has been slowing down since then. This is due to the effect of the comparative basis and a stronger koruna. At the turn of 2016/2017, prices started to accelerate due to a faster increase in food and restaurant prices due to the introduction of online sales registration.

The slowdown of food prices has a significant role in the slowdown of inflation too. Their contribution to year-on-year price growth was 1.3ppt in October 2017 due to their 7.8% YoY growth, and now they contribute just 0.3ppt in March. As such, one percentage point of weaker inflation is only due to the slowdown in annual food price developments.

However, from the point of view of the central bank, this is not a problem as it is a supply factor. On the other hand, prices of services in March slightly accelerated to 2.5% YoY after 2.4% in February, and according to our estimates, core inflation in the CNB definition most likely remained stable at 1.7%.

Labour market still positive

Moreover, today's figures confirm that labour market is still developing favourably. The March share of unemployed people further declined from February's 3.7% to 3.5%. The lower unemployment rate is driven by seasonal factors such as warmer weather in March, but also by favourable economic developments such as increasing firms' demand for workers.

Thus, job vacancies have increased further and already exceeds 253 thousand – a new historical record. This year, the economy will get into the situation, where the number of job vacancies will exceed the number of job seekers. From this development, long-term unemployed and workers with lower qualification are benefiting, as the unemployment rate in these subgroups is decelerating at most rapid pace.

Convenient for the central bank?

The Czech National Bank may even appreciate the slightly below the target inflation now, as markets will stop betting on further rate hikes and won't push the CZK to stronger levels. The economy will not be "cooled" by a stronger crown, which will eventually allow the CNB to tighten monetary policy by rates. Despite lower inflation, we are still counting with the CNB hikes in the second half of this year.

Also, the CNB does not follow current inflation, but inflation in the monetary policy horizon which is one to one-and-half year. And thanks to the current development of the overheated labour market and accelerating wage dynamics, inflationary pressures in the monetary policy horizon are mounting.

So thanks to the robust wage growth, current inflation below the target is not any negative news for the CNB.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com